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BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS

Arizona Corporation Commission
DOCKETED

JEFF HATCH-MILLER, Chairman
WILLIAM A. MUNDELL
MARC SPITZER
MIKE GLEASON
KRISTIN K. MAYES

JAN 20 2005

JAN 24 2005

DOCKETED BY

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IN THE MATTER OF THE APPLICATION OF
COMMUNITY WATER COMPANY OF GREEN
VALLEY FOR AUTHORITY TO ISSUE DEBT.

DOCKET NO. W-02304A-04-0768

DECISION NO. 67515

ORDER

Open Meeting
January 11 and 12, 2005
Phoenix, Arizona

BY THE COMMISSION:

Having considered the entire record herein and being fully advised in the premises, the Arizona Corporation Commission ("Commission") finds, concludes, and orders that:

* * * * *

FINDINGS OF FACT

1. On October 26, 2004, Community Water Company of Green Valley ("CWGV" or "Cooperative") filed an application with the Commission requesting authority to borrow \$4,000,000 for a period of five years.

2. On November 5, 2004, CWGV notified its customers of the application by publishing notice in the *Green Valley News and Sun*, a newspaper of general circulation in its service area.

3. On November 30, 2004, Commission Utilities Division Staff ("Staff") filed a Staff Report that recommends approval of the application.

4. CWGV is a non-profit Arizona corporation owned by its members. The Cooperative serves approximately 15,500 members (9,918 connections as of September 30, 2004) in the unincorporated community of Green Valley, Arizona.

5. The Cooperative's current rates were established in Decision No. 55593 (June 4, 1987).

6. The loan proceeds will be used to refinance an existing \$400,000 loan in the amount of \$450,000, payable to Bank One and to finance the following system improvements:

| | |
|------------------------------------|--------------------|
| Arsenic Treatment of Wells 6 and 9 | \$1,700,000 |
| Replacement Well | 1,950,000 |
| Arsenic treatment replacement well | 800,000 |
| Additional CAP | 500,000 |
| Estimated Legal & Consulting | 300,000 |
| Other System Improvements | 450,000 |
| Refinance Existing Debt | <u>466,667</u> |
| Total | <u>\$6,166,667</u> |

The excess of cost of the improvements over the amount of the borrowing will be funded with internally generated funds.

7. The Cooperative proposes borrowing the \$4,000,000 on two debt facilities as described below:

Facility 1: Non-revolving line of credit in the amount of \$4,000,000 (limited to the lesser of \$4,000,000 or 50 percent of collateral value)

Maturity: 18 months from funding

Interest: prime + 0 percent, or fixed at 30, 60 or 90 day LIBOR plus 200 basis points; Due monthly

Facility 2: Term loan in the amount of \$4,000,000 to pay off Facility 1

Maturity: 60 months from funding

Term: fixed monthly principal payment plus interest based on a 25 year amortization

Interest: a rolling 30 day LIBOR plus 200 basis points or a fixed rate to be determined (the Cooperative expects the rate to be prime Plus 1.5 percent fixed at the time of funding)

8. Staff's analysis was based on audited financial statements as of December 31, 2003, and pro forma 2004 results provided by the Cooperative based on 9 months of actual experience and a forecast of the last three months of the year. Staff assumed an interest rate of 6.5 percent, based on the current prime rate (at the time of the Staff Report) of 5.0 percent. Staff's analysis indicates that funding the proposed \$4,000,000 term loan would yield a times interest earned ratio ("TIER") of 0.89

1 and a debt service coverage ("DSC") of 1.43.¹

2 9. Staff believes that the pro forma DSC ratio indicates that the Cooperative has adequate
3 earnings and cash flow to service the proposed debt. The lender, Bank One, has no TIER
4 requirement.

5 10. Staff believes its DSC and TIER calculations are conservative because: 1) the term
6 loan does not start repayment of principal until late 2006 after the line of credit matures; 2) the loan
7 structure for Facility 2 is principal plus interest, so that the highest payments are incurred at the start
8 of the loan and total repayment of principal and interest declines monthly, easing future servicing
9 requirements; and 3) the Cooperative plans to file a rate case in 2005 or 2006.

10 11. As of December 31, 2003, CWGV had short-term debt of \$33,333, long-term debt of
11 \$466,666 and common equity of \$7,395,920, for a capital structure comprised of 93.7 percent equity
12 and 6.3 percent debt. Pro forma calculations indicate that after incurring the proposed new debt, the
13 Cooperative's capital structure would comprise 64.5 percent equity and 35.1 percent debt.

14 12. Staff found no compliance deficiencies.

15 13. Staff has reviewed the proposed arsenic treatment facilities and the new well
16 replacement project and concludes that both capital improvement projects are appropriate and that the
17 estimated costs are reasonable.

18 14. The Arizona Department of Environmental Quality ("ADEQ") has determined that
19 CWGV's system is currently delivering water that meets the water quality standards required by
20 Arizona Administrative Code, Title 18, Chapter 4.

21 15. CWGV is within the Tucson AMA and is in compliance with its AMA conservation
22 and reporting requirements.

23 16. The Cooperative has an approved Curtailment Plan Tariff with an effective date of
24 July 26, 2003.

25 ¹ The DSC represents the number of times internally generated cash will cover required principal and interest payments
26 on long-term debt. A DSC greater than 1.0 indicates that operating cash flow is sufficient to cover debt obligations.

27 The TIER represents the number of times earnings will cover interest expense on long-term debt. A TEIR greater than
28 1.0 means that operating income is greater than interest expense. A TEIR less than 1.0 is not sustainable in the long-run
but does not necessarily mean that debt obligations cannot be met in the short-term.

17. Staff concluded that the issuance of debt in the amount of \$4,000,000 is within the corporate powers of the Cooperative, compatible with the public interest, compatible with sound financial practices, and will not impair its ability to perform service.

18. Staff recommends approval of the Cooperative's request for authorization to obtain financing on the terms and conditions described in the application.

19. Staff further recommends 1) approval for granting liens in favor of the lender, as required to secure the authorized borrowing; 2) authorizing the Cooperative to engage in any transaction and to execute any documents necessary to effectuate the authorization granted; and 3) that the Cooperative be ordered to file copies of all executed financing documents as soon as practicable after they become available.

CONCLUSIONS OF LAW

1. CWGV is a public service corporation within the meaning of Article XV of the Arizona Constitution and A.R.S. §§ 40-301, 40-302, and 40-303.

2. The Commission has jurisdiction over CWGV and of the subject matter of the application.

3. Notice of the application was given in accordance with the law.

4. The recommendations set forth in Findings of Fact Nos. 18 and 19 are reasonable and should be adopted.

5. The financing approved herein is for lawful purposes within the Cooperative's corporate powers, is compatible with the public interest, with sound financial practices, and with the proper performance by CWGV of service as a public service corporation, and will not impair CWGV's ability to perform the service.

6. The financing approved herein is for the purposes stated in the application, is reasonably necessary for those purposes, and such purposes are not, wholly or in part, reasonably chargeable to operating expenses or to income.

ORDER

IT IS THEREFORE ORDERED that Community Water Company of Green Valley is hereby authorized to borrow up to \$4,000,000 from Bank One under the terms of the Facilities described

1 herein.

2 IT IS FURTHER ORDERED that such finance authority shall be expressly contingent upon
3 Community Water Company of Green Valley's use of the proceeds for the purposes stated in its
4 application and approved herein.

5 IT IS FURTHER ORDERED that Community Water Company of Green Valley is authorized
6 to grant liens in favor of the lender, as required to secure the authorized borrowing.

7 IT IS FURTHER ORDERED that Community Water Company of Green Valley is authorized
8 to execute any documents necessary to effectuate the authorizations granted.

9 IT IS FURTHER ORDERED that Community Water Company of Green Valley shall file
10 copies of all executed financing documents as soon as practicable after they become available.

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IT IS FURTHER ORDERED that approval of the financing set forth hereinabove does not constitute or imply approval or disapproval by the Commission of any particular expenditure of the proceeds derived thereby for purposes of establishing just and reasonable rates.

IT IS FURTHER ORDERED that this Decision shall become effective immediately.

BY ORDER OF THE ARIZONA CORPORATION COMMISSION.

 CHAIRMAN  COMMISSIONER  COMMISSIONER

 COMMISSIONER  COMMISSIONER

IN WITNESS WHEREOF, I, BRIAN C. McNEIL, Executive Secretary of the Arizona Corporation Commission, have hereunto set my hand and caused the official seal of the Commission to be affixed at the Capitol, in the City of Phoenix, this 20th day of Jan., 2005.


BRIAN C. McNEIL
EXECUTIVE SECRETARY

DISSENT _____

DISSENT _____

JR:mlj

1 SERVICE LIST FOR: COMMUNITY WATER COMPANY OF GREEN VALLEY

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